# HIGHLIGHTS from Chapter 2
# BRIDGING THE GAP:
# REVENUE MOBILIZATION IN SOUTH ASIA

**Key Points**

- *On average during 2019–23, South Asian government revenues totaled 18 percent of GDP, well below the average of 24 percent of GDP among emerging market and developing economies (EMDEs).*
- *Controlling for tax rates and the size of potential tax bases, tax revenues in the region are 1–7 percentage points of GDP below their potential, with shortfalls in five of the region's eight countries larger than the average among EMDEs.*
- *Sizable tax gaps remain even taking into account country characteristics such as pervasive informality, suggesting the need for improved tax policy and administration.*
- *South Asian governments could raise revenues by rationalizing exemptions, streamlining tax codes, strengthening enforcement, and facilitating compliance. Pollution pricing could also boost revenues while helping to address the region's high levels of pollution.*

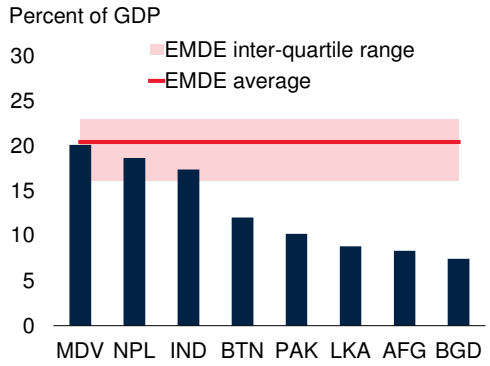
**Low revenues at root of fiscal fragilities.** All South Asian countries face significant fiscal challenges, in particular large debt and debt-service burdens. At the root of these fiscal challenges are South Asian countries' low revenues. During 2019–23, general government revenues excluding grants averaged 18 percent of GDP in South Asia, the lowest among all EMDE regions and well below the EMDE average of 24 percent of GDP. Although tax rates are often above the EMDE average, the region's tax revenue—majority of the region's total revenue—is also below the EMDE average. All South Asian countries except India, Maldives, and Nepal collect less tax revenue (as percent of GDP) than three-quarters of EMDEs and much less than countries with similar per capita income (figure 1).

**Sizable tax revenue shortfalls and tax gaps.** Controlling for tax rates and the size of potential tax bases, tax revenues in South Asia are 1–7 percentage points of GDP below their potential. Tax revenue shortfalls in five of the region's eight countries are larger than the average among EMDEs. The shortfalls are particularly pronounced for consumption taxes, but are also sizable for personal income taxes and, in the larger economies, corporate income taxes. Even accounting for features of South Asian economies such as pervasive informality. sizable tax gaps remain.

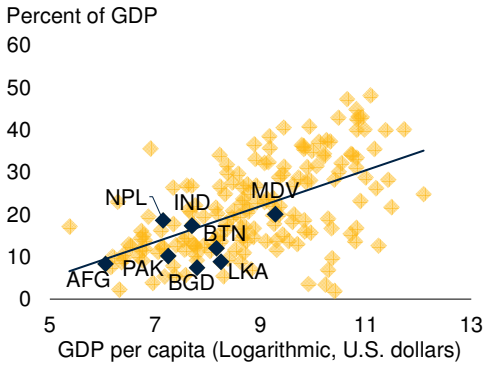
**Policies to raise revenues.** South Asia's revenues could be raised by tax policy measures that eliminate exemptions, unify, simplify, and harmonize tax rates. International experiences suggest that steps to facilitate and strengthen tax administration—such as better enforcement, improved incentives to tax officials, steps to ease tax compliance, and better taxpayer identification—can boost tax collection. Because of its exceptionally high levels of pollution, South Asia could also benefit substantially from pollution pricing. Such policies have been implemented globally through pollution taxation or pollution trading schemes, and have generated 0.7 percent of global tax revenue worldwide in 2023.

**FIGURE 1. Revenue mobilization in South Asia**

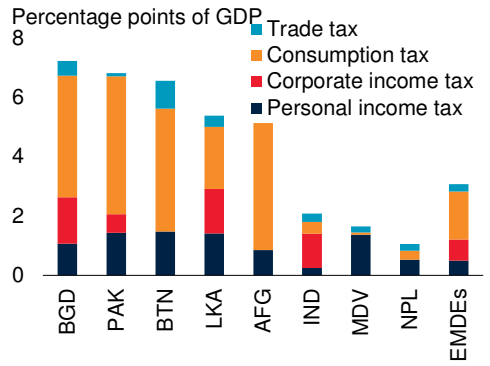
**A. Tax revenues, 2019–23**



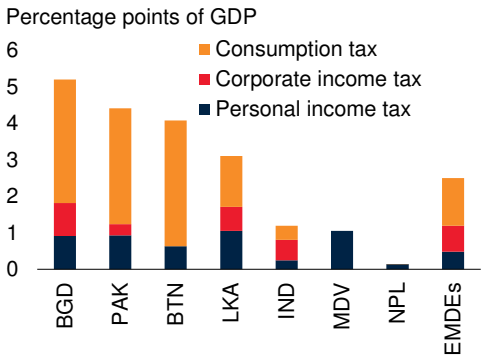

**B. Per capita income and tax revenues, 2019–23**



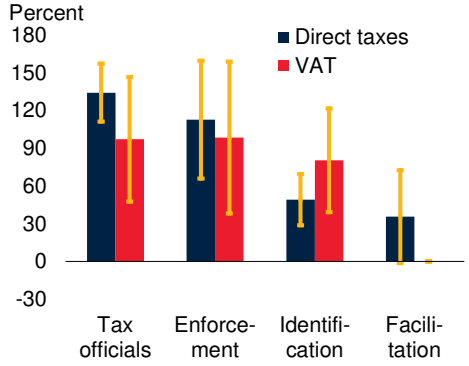

**C. Total tax revenue shortfalls**



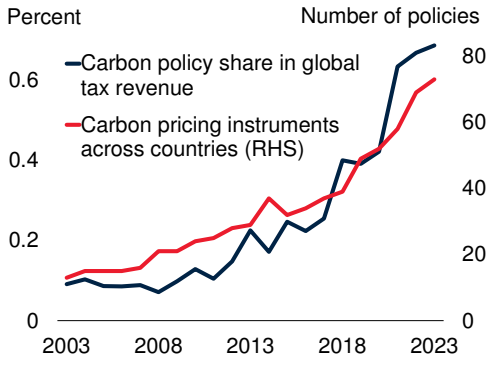

**D. Total revenue shortfall unaccounted for by country characteristics**




**E. Revenue increase, by types of tax and intervention**




**F. Global carbon pricing and government revenues**




*Sources:* Haver Analytics; IMF Financial Development Index (database); IMF Government Finance Statistics (database); International Labour Organization; Okunogbe and Tourek (2024); UNU-WIDER; USAID Collecting Taxes Database; Vegh and Vuletin (2015); World Bank Fiscal Survey; World Bank State and Trends of Carbon Pricing Dashboard (database); World Development Indicators (database); World Integrated Trade Solution Database; World Bank.
*Note:* AFG = Afghanistan; BGD = Bangladesh; BTN = Bhutan; EMDE = emerging market and developing economy; IND = India; LKA = Sri Lanka; MDV = Maldives; NPL = Nepal; PAK = Pakistan; VAT = value-added tax.
A. Tax revenue includes social security contributions. EMDE is nominal GDP-weighted average of 142 EMDEs.
B. Per capita income in nominal U.S. dollars. Straight line represents linear relationship between GDP per capita and tax revenue as a percent of GDP.
C. Tax revenue shortfall is the difference between potential and actual tax revenues. Potential tax revenues are obtained as the ratio of actual tax revenue and the efficiency score derived from stochastic frontier analysis with tax rate and

potential tax base, for each tax type. Sample comprises 158 EMDEs during 2000–23. Values shown are the average of 2020 to the most recent period. For Pakistan, shortfalls of personal and corporate income tax revenues are the average since 2015. The shaded region is the interquartile range of shortfalls among all EMDEs. Estimated shortfall for trade tax revenue does not include the shortfall accounting for para-tariffs. Estimated shortfall for corporate income tax revenue is available for four South Asian countries—Bangladesh, India, Pakistan, and Sri Lanka.

D. Tax revenue gap is the unexplained part of the revenue shortfall, calculated as the difference between the revenue shortfall and the shortfall accounted for by country characteristics. Country characteristics consist of share of self-employment in total employment and financial development for personal income tax; share of agricultural output in gross value-added and financial development for corporate income tax and consumption tax. Total does not include trade tax revenue shortfall.

E. Direct taxes comprise personal and corporate income taxes. The results of the meta-regression analysis shown here are based on estimated revenue impacts and the standard errors of these estimates from a range of studies. The studies varied widely in their design such that the scale of interventions cannot be compared. Bars indicate average revenue impact of 87 interventions in 17 countries, estimated in 26 studies. Yellow whiskers indicate 95 percent confidence intervals.

F. Annual sum of nominal government revenue collected by each jurisdiction (central and subnational) worldwide through emissions trading systems and carbon taxes. Number of carbon pricing instruments in place is the annual count of these measures. Tax revenue and GDP numbers underlying the global share are in nominal U.S. dollars.